

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 ANKARA 005080

SIPDIS

SENSITIVE

USDOE FOR CHUCK WASHINGTON
USDOC FOR 4212/ITA/MAC/OEURA/CPD/CRUSNAK

E.O. 12958: N/A

TAGS: [EPET](#) [ENRG](#) [EINV](#) [TU](#) [GG](#) [IZ](#) [AZ](#) [BTC](#)

SUBJECT: DAS BRYZA MEETING WITH TURKEY ENERGY
UNDERSECRETARY ON BTC, GAS, AND BYPASSES

REF: ANKARA 4000

SENSITIVE BUT UNCLASSIFIED

11. (SBU) Summary. DAS Bryza and Turkey's senior energy bureaucrat agreed that the imminent completion of the BTC pipeline set the stage for new areas of bilateral energy cooperation, including on Turkish Straits "bypass" pipelines, supplying gas to southern and southeastern Europe, and U.S. investment in Turkey's energy sector. However, such initiatives will require strengthening of Turkey's domestic legal and regulatory framework for energy investment. Bryza agreed to consult with U.S. oil companies on ways to overcome competing proposals for bypass routes, to encourage U.S. corporate feedback to Turkey on its regulatory climate (particularly by U.S. firm AES given its interest in electricity distribution), and to work to develop a regular energy dialogue, probably under the auspices of the foreign ministry-led economic dialogue. End Summary.

Gas Hub: Weak Domestic Environment

12. (SBU) In his August 26 meeting with Energy Ministry Under Secretary Sami Demirbilek, State EUR/DAS Matt Bryza described

SIPDIS
how the U.S.-Turkey strategic partnership on energy issues had been a pillar of the bilateral relationship, as demonstrated by the success of the Baku-Tbilisi-Ceyhan (BTC) pipeline. Now that BTC is nearly in operation, Bryza said the U.S. and Turkey should find new areas to advance their energy partnership, such as in support of oil pipelines that bypass and reduce the pressure on the Turkish Straits. Even more significantly, Turkey has the potential to become a gas hub for supplying southern and southeastern Europe and, in so doing, provide market-based competition that would spur positive changes in the anti-competitive mentality of Gazprom.

13. (SBU) Demirbilek welcomed the forward-looking ideas and agreed that Turkey had the potential to be a gas hub, conveying Egyptian, Iraqi, Caucasus and Central Asian gas to European markets. But, he cautioned that Turkey currently does not have excess gas supplies (following a modification this summer of one take-or-pay deal with Russia) and that, more importantly, its domestic regulatory and legal environment is not yet strong or mature enough to support a hub role. In fact, if domestic regulatory shortcomings were not addressed, Turkey would not be able to supply its own natural gas needs after 2011, when a 6 bcm BOTAS purchase contract with Russia runs out. Demirbilek requested U.S. corporate and government support in providing sound advice to the Turkish government on how to create a framework supportive of energy investment. Such advice needed to be directed at Turkish agencies responsible for the investment climate, especially the Ministry of Finance, the Treasury, and the Privatization Administration, he emphasized. Regarding southeastern Europe, Demirbilek explained why Turkey had been unable to sign on to the Southeast Europe Energy Community Treaty in full because the treaty would have required Turkey to implement costly EU environmental acquis immediately rather than through the EU accession process.

Bypasses: Need to Overcome Company Rivalries

14. (SBU) On oil "bypass" pipelines, Bryza and Demirbilek agreed that the Turkish Straits had reached their throughput capacity and that there were several bypass proposals on the table, including Trans-Thrace, Samsun-Ceyhan, Balkan routes, and Odessa-Brody. Demirbilek argued that the risk of a major disruption in the Straits was a key uncertainty in global oil supply today. To him, the most feasible bypass route for cost, environmental and safety reasons seemed to be Samsun-Ceyhan. However, the major oil companies were not, he said for competitive reasons, able to agree on a route. He suggested that the U.S. and Turkey consider calling a conference with oil companies at which each would be able to

present its ideas on the best route. The role of the governments would not be to officially favor any proposal, but to call on the companies to lay aside their rivalries and to support a consensus. Bryza agreed to consider this idea, and consult with U.S. companies and get back to Demirbilek.

U.S. Investment in Energy Sector

15. (SBU) On U.S. investment in Turkey's electricity distribution network, Demirbilek welcomed the interest of AES, but said that AES needed to engage more forcefully with the Privatization Administration, Treasury and Finance Ministry to give its views on how the tender could best be constructed to include the assurances required to encourage bids by experienced companies like AES. Otherwise, the tender would likely go to an unqualified, "adventurous" bidder. Bryza said he would discuss this with AES. Replying to Bryza's inquiry about Turkey's interest in civilian nuclear power, Demirbilek said that Turkish planning was at a very early stage, examining the legal, regulatory, and environmental requirements a nuclear industry.

BTC Inauguration Timing

16. (SBU) Demirbilek said that the GOT continued to plan a BTC "First Oil" in Ceyhan for November 10, although he acknowledged that the date could slip into December for technical reasons. He hoped for high-level USG participation (see reftel), which Bryza said he would work to ensure. Bryza said he was aware that BP targeted first oil at Ceyhan for December, and so argued for a mid-December inauguration. (Note: BP latest forecasts indicate late December for first oil, but they believe that mid-December is still realistic for first tanker loading. The risk of delay is that pre-commissioned oil via tanker from Supsa would have to be utilized instead. End Note.) On differences with BP and the Consortium over cost overruns in Turkey, Demirbilek said that these would be settled, after, not before, BTC becomes operational.

Iraq Electricity

17. (SBU) Demirbilek said efforts to increase Turkish electricity exports to northern Iraq were also stymied by domestic regulatory issues. He was worried that the Energy Regulatory and Markets Authority (EMRA) was taking too much of a doctrinaire approach to licensing such exports. In particular, he thought EMRA's plan to auction transmission rights from Turkey to Iraq was not workable. (Post will followup separately with EMRA on the latest state of play.)

Georgia Gas

18. (SBU) Demirbilek said that the Energy Ministry would not object to selling excess Shah Deniz gas supplies to Georgia if the Turkish government concluded that this would be in Turkey's national interest of establishing better relations with Georgia. He noted that Turkey and Georgia had agreed this summer on an electricity swap program under which Georgia would supply Turkey with excess hydro-generated electricity in the summer months, which Turkey would return in the fall.

Comment

19. (SBU) Both Bryza and Demirbilek agreed that there was a need for periodic bilateral discussions of energy issues. Demirbilek said that from his point of view, the best way to manage a dialogue was under the umbrella of the MFA-led economic partnership dialogue. He said this would ensure inter-agency cooperation in the GOT and reduce the administrative burden on the MoE. Post welcomes DAS Bryza's engagement on energy issues. Demirbilek appeared hesitant to commit on major new initiatives, but those hesitations probably reflect his already heavy agenda and doubts about MoE's capacity to follow-through -- as well as potential concerns about his relationship with Turkey's major energy supplier, Russia. These hesitations can probably be overcome through continued engagement and interaction.

110. (U) DAS Bryza has not cleared this cable.

MCELDOWNEY